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NORWEST CORPORATION

ECONOMIC INDICATORS

CORPORATE ECONOMICS DEPARTMENT - DR. SUNG WON SOHN, CHIEF ECONOMIST MAY 6, 1987

Spring 1987 Regional Economic Survey

Highlights

- Our 22nd semi-annual survey of the region's bankers suggests that problem farm loans peaked in early 1986 and now are trending downward. However, any abrupt cut in government subsidies could reverse this trend.
- The number of farmers going out of business also is trending downward.
- Land prices are down only modestly from a year ago. Fifteen percent of the bankers said land prices were higher than a year ago, while one-third reported no change. Most bankers expect relatively stable land prices during the next 12 months.
- Government subsidies are giving most crop farmers a positive cash flow. Farm production costs are down and livestock production is profitable. Despite these positive developments, no genuine improvements in the farm sector is anticipated.
- Loan demand continues to decline at agricultural banks. Loan-to-deposit ratios are at the lowest level since the 1960s.
- The Twin Cities economy appears to be snapping out of the doldrums. Employment growth has accelerated, getting back in line with the U.S. average. The high-tech sector appears to be in the early stages of recovery.
- The Iron Range economy continues to struggle, while other parts of northern Minnesota and Wisconsin show slight improvement.
- Deposit growth has outstripped loan demand in the Twin Cities, pushing loan-to-deposit ratios to the lowest level since this survey began. Loan demand remains depressed in northeastern Minnesota.

Agricultural conditions

Subsidies maintain income. Bankers estimate that only 9 percent of their farm borrowers will experience negative cash flow this year, a substantial improvement over the fall survey estimate of 18 percent; the median response was 5 percent.

Current goverment subsidies are giving most crop farmers a positive cash flow. Livestock and dairy production are also profitable. Farm operating costs have declined and progress is being made in reducing debt. Farmers with low debt levels are making money, while some highly leveraged operators will not survive.

Sixty percent of the agricultural bankers rated overall economic conditions fair and 15 percent good, more favorable responses than last fall. But one-quarter of the bankers classified local conditions as poor.

Most bankers expect stable to slightly improved economic conditions during the next six months, while 5 percent expect further deterioration. This is a more positive appraisal than last fall, boosting the agricultural bankers' confidence index (see page 5) to the highest level since April 1983, when the PIK program was implemented. However, no genuine improvement in the farm sector is anticipated.

The longer-term outlook remains uncertain. The crop outlook is highly dependent on the level of government subsidies. Target prices for crops are scheduled to be reduced by 10 percent over a three-year period beginning with 1988 crops. Budget pressures could cut government payments even further. Any sustained run-up in interest rates would also hurt debt-ridden farmers.

Land-price decline moderates. According to the region's bankers, cropland prices are down only about 5 percent from a year ago, a considerably smaller decline than reported during the past two years. One-fourth of the bankers reported declines of 10 percent or more, while 45 percent of the bankers said land prices were either unchanged or higher than a year ago.

At present, cropland prices are estimated to average about $950 per acre in Iowa. One-fourth of the Iowa bankers valued good cropland at $800 per acre or less: another one-fourth reported sales of $1,100 per acre or more. In grain-producing areas of Minnesota and Nebraska, good cropland was pegged at about $650 per acre, with the lower quartile reporting land values in the $500 or less range and the upper quartile in the $800 plus range.

Pastureland prices are off about 8.5 percent from a year ago, also a smaller drop than in recent surveys.

Three-fourths of the bankers look for fairly stable land prices during the next 12 months; only 15 percent expect further declines. Farm-program decisions will play an important role in the future direction of land prices.

Exit rate moderating. On average, bankers estimate that 2.7 percent of their customers quit farming during the past year, down from last spring's peak. Their estimates ranged from a low of 1 percent or less for one-fourth of the agricultural banks to a high of at least 4 percent for another one-fourth of the banks.

Bankers predict the number of customers discontinuing operations during the next year will remain near

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Conducted by:
Norwest Corporation, Economics Department

Credit Conditions

Qualitative questions such as 2, 6 and 17-25 show the percentage of bankers falling in each of the categories higher, same, lower, etc. Items may not add up to 100 percent due to rounding.

1. What is your current **loan-to-deposit ratio?**

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	48.6%	39.2%	48.0%	59.0%
Minnesota	51.9	42.0	52.0	61.6
North Dakota	46.8	39.0	47.0	53.0
South Dakota	46.8	37.0	47.4	58.5
Montana	57.3	45.4	60.0	67.0
Wisconsin	57.2	50.0	59.0	63.9
Iowa	43.4	34.0	42.2	53.0
Nebraska	51.0	40.0	50.0	65.0
Twin Cities Banks	59.5	51.0	60.0	66.0
N. Minn.-Wisc.	53.8	48.0	58.0	63.0

2. **Loan-to-deposit ratio** higher or lower than desired?

	Higher	Desired	Lower
All Ag Banks	2%	30%	68%
Minnesota	3	30	67
North Dakota	0	34	66
South Dakota	3	39	57
Montana	7	26	67
Wisconsin	2	23	75
Iowa	2	26	72
Nebraska	0	33	67
Twin Cities Banks	0	15	85
N. Minn.-Wisc.	2	39	59

3. **Typical interest rate** charged for operating loans?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	11.4%	11.0%	11.5%	11.8%
Minnesota	11.5	11.0	11.5	12.0
North Dakota	11.7	11.3	11.5	12.0
South Dakota	11.4	11.0	11.5	12.0
Montana	11.3	10.8	11.5	11.8
Wisconsin	11.1	10.5	11.0	11.5
Iowa	11.2	10.8	11.3	11.5
Nebraska	11.3	11.0	11.4	11.8
Twin Cities Banks	10.0	9.5	10.0	10.5
N. Minn.-Wisc.	10.9	10.5	11.0	11.6

4. Percentage change in **farm loan volume** during **past 12 months?**

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	– 7.3%	– 15.0%	– 5.6%	0.0%
Minnesota	– 7.9	– 15.0	– 6.5	0.0
North Dakota	– 6.7	– 10.0	– 5.0	0.0
South Dakota	– 4.2	– 11.3	– 5.0	0.0
Montana	– 9.8	– 25.0	– 2.0	0.0
Wisconsin	1.3	– 4.5	0.0	0.0
Iowa	– 8.5	– 15.0	– 9.0	0.0
Nebraska	– 10.4	– 14.0	– 10.0	– 5.0

5. Percentage change in **loan volume** during **past 12 months?**

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	– 4.7%	– 10.0%	– 5.0%	0.0%
Minnesota	– 4.1	– 10.0	– 2.7	0.0
North Dakota	– 5.9	– 12.0	– 5.0	0.0
South Dakota	– 3.1	– 10.0	– 5.0	0.5
Montana	– 8.8	– 15.7	– 10.0	0.0
Wisconsin	0.5	– 5.5	0.0	5.0
Iowa	– 5.5	– 12.0	– 5.0	0.0
Nebraska	– 6.7	– 12.0	– 9.0	– 2.5
Twin Cities Banks	7.1	0.0	6.0	15.0
N. Minn.-Wisc.	0.6	– 5.8	0.0	8.8

6. **Anticipated loan growth** during **next 12 months** compared with past year?

	Higher	Same	Lower
All Ag Banks	29%	52%	19%
Minnesota	25	52	23
North Dakota	32	51	17
South Dakota	40	52	6
Montana	50	35	15
Wisconsin	37	51	12
Iowa	24	54	22
Nebraska	24	53	24
Twin Cities Banks	30	55	15
N. Minn.-Wisc.	29	44	27

7. Percentage change in **bank deposits** during past 12 months?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	4.0%	0.0%	4.0%	9.0%
Minnesota	4.9	0.0	5.0	8.0
North Dakota	1.8	0.0	1.5	6.0
South Dakota	5.8	0.0	5.5	10.0
Montana	– 0.3	– 5.0	0.0	3.0
Wisconsin	3.3	0.0	4.0	8.0
Iowa	3.9	0.0	4.0	10.0
Nebraska	4.6	0.0	3.5	10.0
Twin Cities Banks	13.0	7.1	11.0	18.5
N. Minn.-Wisc.	5.9	0.5	5.0	11.5

8. Percentage of **farm loans** that is **nonperforming?**

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	5.3%	1.0%	3.0%	7.0%
Minnesota	6.0	1.0	4.0	10.0
North Dakota	7.4	1.0	5.0	10.0
South Dakota	5.4	0.9	3.5	8.0
Montana	11.9	0.1	8.0	20.0
Wisconsin	3.3	0.6	1.6	5.0
Iowa	3.8	0.5	2.0	5.0
Nebraska	5.2	1.0	4.0	8.3

9. **Net loan charge-offs** in 1987 compared with year ago?

	Higher	Same	Lower
All Ag Banks	9%	28%	63%
Minnesota	13	27	61
North Dakota	8	45	48
South Dakota	6	50	44
Montana	15	22	63
Wisconsin	18	33	49
Iowa	3	19	78
Nebraska	9	26	65
Twin Cities Banks	6	42	52
N. Minn.-Wisc.	20	34	46

Business Conditions

10a. Current **market value** of good **cropland?** (Dollars per acre)

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	$679	$400	$675	$900
Minnesota	638	500	610	800
North Dakota	372	236	290	400
South Dakota	322	200	300	400
Montana	388	288	343	500
Wisconsin	539	450	500	600
Iowa	951	800	1000	1100
Nebraska	663	494	688	800

10b. Current **market value** of **pastureland?** (Dollars per acre)

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	$236	$125	$200	$300
Minnesota	227	138	200	300
North Dakota	130	100	100	128
South Dakota	149	100	125	175
Montana	104	75	84	141
Wisconsin	226	150	200	250
Iowa	328	200	300	400
Nebraska	196	110	150	275

11a. Percentage **change** in **cropland prices** from a year ago?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	– 5.7%	– 10.0%	– 5.0%	0.0%
Minnesota	– 6.5	– 15.0	– 5.0	0.0
North Dakota	– 8.6	– 10.8	– 10.0	0.0
South Dakota	– 5.5	– 10.0	– 5.0	0.0
Montana	– 10.3	– 20.0	– 10.0	0.0
Wisconsin	– 6.4	– 10.0	– 7.0	0.0
Iowa	– 4.0	– 10.0	0.0	0.0
Nebraska	– 4.5	– 10.0	0.0	0.0

11b. Percentage **change** in **pastureland prices** from a year ago?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	– 8.5%	– 15.0%	– 6.0%	0.0%
Minnesota	– 9.0	– 15.0	– 3.0	0.0
North Dakota	– 9.6	– 15.0	– 10.0	0.0
South Dakota	– 10.5	– 20.0	– 10.0	0.0
Montana	– 12.0	– 20.0	– 15.0	0.0
Wisconsin	– 6.2	– 10.0	– 1.0	0.0
Iowa	– 7.8	– 15.0	– 5.0	0.0
Nebraska	– 6.4	– 10.0	0.0	0.0

12. Anticipated trend in **land prices** during **next 12 months?**

	Increase	Stable	Decrease
All Ag Banks	7%	77%	15%
Minnesota	7	81	12
North Dakota	3	69	28
South Dakota	3	74	23
Montana	4	77	19
Wisconsin	4	83	13
Iowa	10	76	14
Nebraska	9	80	11

13. Percentage of farm borrowers having **negative cash flow** in 1987?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	9.2%	2.0%	5.0%	10.0%
Minnesota	9.3	2.0	5.0	10.0
North Dakota	10.0	4.3	10.0	15.0
South Dakota	11.7	5.0	10.0	15.0
Montana	19.1	10.0	15.0	28.8
Wisconsin	13.3	5.0	10.0	20.0
Iowa	7.3	2.0	5.0	10.0
Nebraska	6.4	2.0	5.0	10.0

14. Percentage of farm customers that went **out of business** during the **past 12 months?**

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	2.7%	1.0%	2.0%	4.0%
Minnesota	3.0	1.0	2.0	5.0
North Dakota	2.5	1.0	2.0	3.6
South Dakota	2.5	0.0	2.0	5.0
Montana	2.2	0.0	1.0	3.0
Wisconsin	2.4	1.0	2.0	3.2
Iowa	2.6	1.0	2.0	3.0
Nebraska	2.7	1.0	2.0	5.0

15. Percentage of farm customers likely to **discontinue operating** during the **next 12 months?**

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	2.8%	1.0%	2.0%	4.0%
Minnesota	3.3	1.0	2.0	5.0
North Dakota	2.9	1.0	2.0	4.8
South Dakota	2.5	1.0	2.0	3.8
Montana	3.9	1.0	2.0	5.0
Wisconsin	2.2	1.0	2.0	3.0
Iowa	2.4	1.0	2.0	3.0
Nebraska	2.6	1.0	2.0	5.0

16. Percentage of farm/ranch customers likely to **survive** in the **long run?**

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	85.6%	80.0%	90.0%	95.0%
Minnesota	84.8	80.0	90.0	95.0
North Dakota	83.5	75.0	85.0	95.0
South Dakota	85.3	75.0	90.0	95.0
Montana	82.4	80.0	80.0	90.0
Wisconsin	85.0	80.0	90.0	90.0
Iowa	87.4	80.0	90.0	95.0
Nebraska	85.9	80.0	90.0	90.0

17. Overall **economic conditions** in your area at the **present time?**

	Very Good	Good	Fair	Poor	Very Poor
All Ag Banks	1%	14%	60%	23%	2%
Minnesota	1	12	59	26	3
North Dakota	0	6	52	39	3
South Dakota	0	21	61	15	3
Montana	0	4	37	52	7
Wisconsin	0	27	57	16	0
Iowa	1	13	67	19	0
Nebraska	0	16	64	18	2
Twin Cities Banks	9	64	24	3	0
N. Minn.-Wisc.	0	17	34	41	7

Iowa - "Had our first year in four where the large majority of farm customers had positive cash flow."

"Economy has stabilized, but mostly due to the farm program. If programs are cut, problems will surface again."

"Majority of farmers have made the necessary adjustments in their operations and, with livestock prices and the government program, nearly all were profitable."

"Feel our problem-farm customers have been dealt with."

Minnesota — "We have just about bottomed out, but improvement will not be rapid."

"Ag business continues to feel squeeze, although most feel they have weathered the storm by making necessary adjustments."

"Most farmers have adjusted to current conditions and will survive."

"Highly leveraged farmers continue to struggle and failures will continue."

Montana - "Expect some improvement from higher livestock prices."

"Economy dependent on agriculture, timber, energy and mining. Expect no great improvement in any of these industries during 1987. Montana economy will remain somewhat depressed."

"Most farmers will survive as past years have eliminated highly leveraged."

Nebraska - "CRP is stabilizing real estate values and income."

"Most farms have been profitable because of two excellent production years and tremendous government payments. We are more concerned about stores around the square."

"Outlook is better than year ago, but I expect improvement to be very slow."

North Dakota - "Specialty crops have kept the economy somewhat stronger than other areas."

"Economy will stabilize but remain stagnant for the foreseeable future."

"Farmers with any amount of debt to service will continue to struggle."

"Auction sales have been going 30 percent higher than the previous year."

South Dakota - "With stronger livestock prices, outlook is optimistic. Government programs are essential for grain farms."

"The past few years, most of our grain farmers have really reduced their loans, some paying them off in full."

"Farm income heavily dependent on farm program. If subsidies are reduced, marginal operations will fail."

"Cash rents have declined making better profit margin for renters."

Wisconsin - "Farmers doing better job of management and watching capital expenditures."

"I believe that the worst is past, but recovery is going to be slow in coming."

"Feel the agricultural economy has stabilized and look for improvement in the commercial and tourism areas."

Twin Cities - "Outlook is excellent."

"Stable to up slightly."

"Strong housing demand . . . generally good economic outlook."

Northern Minnesota/Wisconsin - "See no pick up in local economy."

"(Outlook) not good, but holding steady."

"(Iron Range) economy is depressed, not expecting any relief."

"Expect gradual improvement due to new industry."

18. **Local economy** stronger or weaker than a year ago?

	Stronger	Same	Weaker
Twin Cities Banks	27%	73%	0%
N. Minn.-Wisc.	27	46	27

19. Are **capital expenditures** higher or lower than a year ago?

	Higher	Same	Lower
Twin Cities Banks	12%	64%	24%
N. Minn.-Wisc.	20	37	44

20. Change expected in **capital outlays** during **next six months?**

	Stronger	Same	Weaker
Twin Cities Banks	9%	73%	18%
N. Minn.-Wisc.	17	46	37

21. Are **retail sales** better or worse than a year ago?

	Better	Same	Worse
Twin Cities Banks	21%	76%	3%
N. Minn.-Wisc.	17	44	39

22. Are **automobile sales** better or worse than a year ago?

	Better	Same	Worse
Twin Cities Banks	0%	34%	66%
N. Minn.-Wisc.	10	61	29

23. Change expected in **consumer spending** during **next six months?**

	Stronger	Same	Weaker
Twin Cities Banks	6%	73%	21%
N. Minn.-Wisc.	22	61	17

24. Are **housing starts** higher or lower than a year ago?

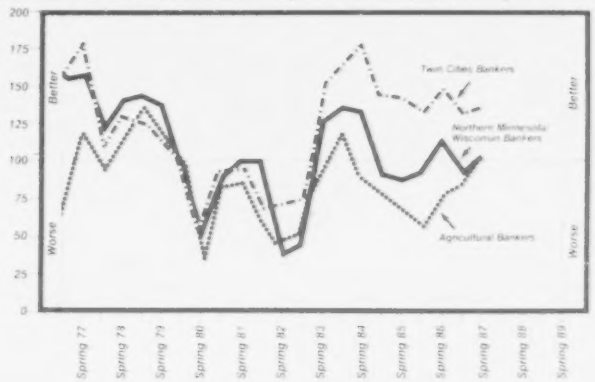
	Higher	Same	Lower
Twin Cities Banks	76%	15%	9%
N. Minn.-Wisc.	24	39	37

25. Anticipated trend in **economic conditions** during the **next six months?**

	Better	Same	Worse
All Ag Banks	17%	78%	5%
Minnesota	14	80	6
North Dakota	9	86	5
South Dakota	16	81	3
Montana	33	59	7
Wisconsin	20	76	4
Iowa	19	77	5
Nebraska	18	77	5
Twin Cities Banks	15	82	3
N. Minn.-Wisc.	29	68	2

Upper Midwest Confidence Index

Composite index of current conditions and bankers' appraisal of economic prospects during the next six months



Economic Survey

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current levels. Bankers indicate that substantial progress is being made in restructuring farm operations, but it may take a couple of years before the restructuring of highly leveraged farm operations is completed.

Bankers estimated that 85 percent of their current farm customers will survive in the long run; the median response was 90 percent. One-fourth of the banks said that at least 95 percent of their customers will survive, while another one-fourth estimated that 80 percent or less of their customers would ultimately survive.

Twin Cities Economy

Healthy despite soft spots. Three-fourths of the Twin Cities bankers rated local economic conditions good to very good — a trifle stronger than a year ago. Housing starts remain at an impressive level, but auto sales and capital expenditures are weaker than a year ago.

Most Twin Cities bankers expect little change in overall economic conditions, while only 3 percent predict weaker conditions.

Last year, Twin Cities employment grew a mere 1.6 percent, trailing the national average. Manufacturing jobs fell for the second year in a row, due mainly to a 13 percent decline in computer-related jobs in 1986. However, the Twin Cities economy appears to be snapping out of the doldrums.

Employment growth accelerated during the last two quarters. As of March 1987, nonfarm employment was 2.5 percent above a year ago, bringing the Twin Cities back in line with U.S. employment growth.

Manufacturing employment has stabilized as layoffs in the computer industry have tapered off, and the high-tech industry appears to be in the early stages of a recovery. The housing market remains strong following last year's record-setting sales of new and existing houses. Job growth is retaining its muscle in construction, business services, finance, insurance and real estate. However, high office-vacancy rates and rapid expansion of small shopping centers suggest an eventual slowdown in nonresidential construction and financial stress among small specialty retailers.

Northern Minnesota/ Wisconsin Economy

Mixed Appraisal. Bankers' appraisals of current and future economic conditions are a bit more optimistic than last fall. However, wide variation is evident in the northern region.

The Iron Range economy has weakened since our fall survey. More layoffs have occurred in the taconite industry, with little relief in sight. Housing starts, capital expenditures and retail sales are all lower than a year ago. Two-thirds of the Iron Range bankers characterize current conditions as poor and 7 percent very poor. Most bankers expect little change in the next six months.

Although employment in Duluth-Superior still is 8 percent below the previous peak, economic activity continues to strengthen. After rising 1.1 percent during the past year, employment is now 11 percent above the low registered in mid 1983. Tourism, construction and new businesses have aided the area.

Other northeastern Minnesota bankers rate current economic conditions stronger than a year ago. Sixty percent of the bankers rated current conditions fair, 12 percent good and 30 percent poor. Most bankers expect either little change or slightly stronger conditions during the next six months. Tourist trade is expected to rise, but general industry growth will be very limited.

Northern Wisconsin bankers also report that economic conditions are somewhat stronger than a year ago. One-fourth of the bankers rated current economic conditions good, 33 percent fair and 40 percent poor. Two-thirds of the bankers expect little change in overall conditions during the next six months, while the number of bankers that expect improvement outnumber the bankers that anticipate deterioration by a two-to-one margin.

Credit conditions

Agricultural banks

Problem loans have peaked. The volume of problem farm loans at commercial banks appears to have peaked in early 1986 and is now trending downward. Bankers in the seven-state region indicate that on average, 5.3 percent of their agricultual loans were nonperforming in April, down from 6.1 percent last fall, and peak of 6.6 percent a year ago. One-fourth of the banks said that at least 7 percent of their farm loans were nonperforming while another one-fourth

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said no more than 1 percent of their farm loans were nonperforming.

This progress reflects concerted efforts by farmers and lenders to deal with loan problems. Federal loan guarantees and state interest-buydown programs have also played an important role. The volume of problem farm loans is expected to continue to decline; however, any abrupt cut in government subsidy payments could reverse the trend. Two-thirds of the bankers predicted that net charge-offs of loans during 1987 would be lower than last year; only 9 percent anticipated higher charge-offs of loans.

Debt reduction continues. The bankers participating in this survey indicated that farm loans are down 7 percent from a year ago. One-fourth of the banks reported declines at 15 percent or more, while another one-fourth reported no drop in farm-loan volume. The biggest declines occurred in Nebraska, Minnesota grain areas, Iowa and eastern Montana. South Dakota and Minnesota dairy areas experienced below-average declines, while Wisconsin bankers reported a 1 percent increase in loan volume.

Data from other sources indicate that farm nonreal-estate loans at banks are down about 25 percent from the 1984 peak. Bucking the trend, loans backed by farm real estate continue to increase at agricultural banks. Factors contributing to the ongoing reduction in farm debt include: substantial loan charge-offs by lenders; the sale of farm assets; improved livestock profits; increased government payments in advance of the production season; curtailed capital expenditures; and reduced farm operating costs resulting from declines in crop acreage and lower prices of fuel, fertilizer, etc. Financially strong borrowers have also emphasized paying off debt.

Interest rates on farm loans also continued to decline, aiding the debt-adjustment process. The typical interest rate charged for farm operating loans averaged 11.4 percent in April, down from 11.8 percent last fall and 12.7 percent a year ago.

Deposits at agricultural banks were up a modest 4 percent from a year ago, on par with the last four surveys. One-fourth of the banks reported no growth in deposits, while another one-fourth experienced deposit growth of 9 percent or more.

The combination of rising deposits and declining loan volume pushed the average loan-to-deposit ratio 4.6 percentage points below last year's level to 48.6 percent — the lowest level since the 1960s. One-fourth of the banks had a ratio of 39 percent or less, while another one-fourth had a ratio of 59 percent or more. Nea[illegible]70 percent of the bankers viewed the[illegible]oan-to-deposit ratio as lower than desired.

Twin Cities banks

Deposits outstrip loan growth. Bank deposits are up 13 percent from a year ago at Twin Cities banks. One-fourth of the banks recorded increases of 18 percent or more, while another one-fourth of the bankers reported increases of 7 percent or less.

Although loan demand was stronger than last fall, loans did not keep pace with deposit growth. Total loans outstanding are up 7.1 percent from a year ago. One-fourth of the Twin Cities banks experienced an increase of 15 percent or more, while another one-fourth reported no increase in loans.

At 59.5 percent, the average loan-to-deposit ratio was down 3.5 percentage points from last fall to the lowest level since this survey began 11 years ago. One-fourth of the banks had a loan-to-deposit ratio of 53.8 percent or less, while another one-fourth had a ratio of 66 percent or more. Eighty-five percent of the bankers viewed their ratio as lower than desired. About 30 percent of the bankers expect stronger loan demand during the next 12 months, while 55 percent expect no acceleration in loan growth. Bankers also predict that loan charge-offs during 1987 will average less than a year ago.

The typical interest rate charged for operating loans was 10 percent in mid-April, down from 10.3 percent last fall.

Northern Minnesota/ Wisconsin banks

Anemic loan demand. Bankers reported virtually no change in loan volume from a year ago, evidence of a weak economy. One-fourth of the banks had at least a 6 percent drop in loans, while another one-fourth experienced increases of at least 9 percent. Deposits averaged 6 percent more than a year ago, on par with the last couple of surveys.

The average loan-to-deposit ratio fell 8.2 percentage points below last year's level to 53.8 percent, also the lowest level since this survey began. Twenty-five percent of the banks have a ratio of 63 percent or more, while another one-fourth had a ratio of 48 percent or less. Iron Range banks had the lowest loan-to-deposit ratios. Bankers anticipate continued weak loan demand.

The typical interest rate charged for operating loans was 10.9 percent in April, compared with 11.4 percent last fall. Nearly half of the bankers expect a decline in loan charge-offs during 1987, while 20 percent of the bankers anticipate higher charge-offs.

By Dr. Larry J. Wipf
Director of Regional Economics
Norwest Corporation

- **Conducted in early April, this survey drew responses from more than 800 bankers in Iowa, Minnesota, Montana, Nebraska, North Dakota, South Dakota, and Wisconsin.**

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